

Message Text

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INFO OCT-01 ISO-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

EA-11 FRB-02 INR-10 IO-14 NEA-14 NSAE-00 RSC-01

OPIC-12 SP-03 TRSE-00 CIEP-02 LAB-06 SIL-01 SWF-02

OMB-01 SAJ-01 SAM-01 AGR-20 STR-08 DRC-01 /169 W

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R 061714Z JUN 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1029

INFO USMISSION EC BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 07102

DEPARTMENT PASS TREASURY FOR F.L. WIDMAN AND S.Y.CROSS AND
FRB

E.O. 11652: XGDS-1, DECLAS 6-6-04

TAGS: EFIN, UK

SUBJECT: EC RENEGOTIATION, U.K. TREASURY VIEWS

REF: A) LONDON 6567; B) LONDON 6752; C) LONDON 6973, 7087

SUMMARY: U.K. TREASURY OFFICIAL REPORTS THAT JUNE 4 RENEGOTIATION DISCUSSION WENT AS WELL AS COULD HAVE BEEN EXPECTED. PRESS REPORTS ARE INCORRECT IF THEY IMPLY THAT UK PRESENTATION INCLUDED ESTIMATES OF FUTURE UK EXCHANGE RATE FLUCTUATIONS TO 1980. DESPITE U.K. TREASURY STAFF INVOLVEMENT, FOREIGN OFFICE AND FOREIGN SECRETARY CALLAGHAN ARE PRIMARILY RESPONSIBLE FOR RENEGOTIATIONS. UK TREASURY STAFF CONSIDER REQUEST FOR CHANGES IN SIZE OF UK CONTRIBUTION TO EC BUDGET AND WORKINGS OF CAP WOULD EVENTUALLY HAVE BEEN MADE REGARDLESS WHICH POLITICAL PARTY WAS IN POWER IN UK. END SUMMARY.

1. UK TREASURY PERSONNEL HAVE BEEN VERY GUARDED IN THEIR COMMENTS ABOUT EC RENEGOTIATION. REFERENCED MESSAGES A & CONFIDENTIAL
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B INDICATE WHAT EMBASSY HAS HEARD FROM FOREIGN OFFICE;
REF C IS EMBASSY'S ASSESSMENT ON PROSPECTS FOR EC NEGOTI-

ATION. UK TREASURY STAFF WHO ARE IN A POSITION TO BE KNOWLEDGEABLE HAVE ADVANCED THE FOLLOWING POINTS ON A PERSONAL BASIS REQUESTING ANONYMITY.

2. SOURCE TERMED FOREIGN MINISTER CALLAGHAN'S PERFORMANCE AT JUNE 4 EC MEETING AS FINE, GENERALLY WELL RECEIVED; HE WAS IN GOOD FORM. THE ONLY MAJOR RESISTANCE CAME FROM THE FRENCH. UK TREASURY DOES NOT BELIEVE THAT THE GERMANS ARE UNSYMPATHETIC TO BASIC UK AIMS, BUT THE GERMANS ARE TAKING A VERY HARD AND SKEPTICALLY ANALYTIC POSITION CONCERNING THE UK'S PRESENTATION AND NUMBERS INVOLVED. SMALLER EC COUNTRIES WERE MORE FAVORABLE TOWARD UK PRESENTATION. THEY, ESPECIALLY DENMARK, FEAR THE EFFECTS SHOULD THE UK EVENTUALLY PULL OUT OF THE EC.

3. SOURCE NOTED THAT BY YEAR'S END, ANOTHER UK ELECTION MAY HAVE BEEN HELD. UK TREASURY STAFF, AT LEAST, CONSIDER THAT THE EC'S RESPONSE TO RENEGOTIATION BID MIGHT BE MORE CERTAIN IF EC HAD A BETTER JUDGMENT OF THE TENURE AND POLITICAL STRENGTH OF THE UK GOVERNMENT TO WHICH IT WOULD BE REPLYING.

4. ASIDE FROM PREPARING ECONOMIC BACKGROUND FOR THE UK PRESENTATION, WHICH UK TREASURY SOURCES ADMIT IS BASED ON IMPERFECT FORECASTING ASSUMPTIONS, THE UK TREASURY IS VERY MUCH TAKING A SECONDARY ROLE TO THE FOREIGN OFFICE AND TO FOREIGN MINISTER CALLAGHAN WHO IS PERSONALLY IN CHARGE OF THE RENEGOTIATION EXERCISE. CHANCELLOR HEALEY DOES NOT HAVE THE TIME TO BECOME INVOLVED HIMSELF. TREASURY PAYMASTER GENERAL EDMUND DELL REPRESENTS TREASURY IN MINISTERIAL DELIBERATIONS ON THE SUBJECT. OUR SOURCES HAVE NO INDICATION THAT HEALEY WOULD BECOME PERSONALLY INVOLVED, ALTHOUGH THEY REPORTED HEALEY AND FRENCH PRESIDENT GISCARD D'ESTAING WILL BE LUNCHING TOGETHER THIS WEEK. UK TREASURY EXPECTS THAT EC FINANCE MINISTERS WILL EVENTUALLY BECOME INVOLVED WHEN THE EXERCISE BECOMES MORE FINANCIAL THAN POLITICAL.

5. UK TREASURY SOURCE SAID TWO MAIN UK AIMS ARE TO
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CHANGE SCALE OF BUDGET CONTRIBUTIONS AND THE WORKINGS OF COMMON AGRICULTURAL POLICY. REGARDLESS OF WHICH POLITICAL PARTY WERE IN POWER, THESE TWO ELEMENTS WOULD AT SOME POINT HAVE HAD TO BE RENEGOTIATED. THE UK COULD NOT HAVE CONTINUED TO MAKE THE PAYMENTS ENVISAGED BETWEEN 1974 AND 1980. MAIN ECONOMIC CONCLUSIONS UNDERLYING UK PRESENTATION WHICH HAVE BEEN WIDELY PUBLICIZED, ARE THAT WHILE THERE MAY, OF COURSE, BE SOME VARIATION IN THE SMOOTH PATTERN ASSUMED FROM YEAR TO YEAR, THE BROAD OUTLOOK IS:
(I) BASED ON 1974 PRICES THE UK NET CONTRIBUTIONS WILL

RISE RAPIDLY FROM THEIR PRESENT LEVEL (WHICH ALREADY
THIS YEAR MAKE THE UK LIKELY TO BE THE SECOND LAR-
GEST NET CONTRIBUTOR IN THE COMMUNITY). THE ESTI-
MATED LEVEL OF THE NET CONTRIBUTION WILL ALREADY BE

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AS HIGH AS 335 MILLION UNITS OF ACCOUNT BY NEXT
YEAR; WILL INCREASE TO 690 MILLION UNITS OF ACCOUNT
IN 1978; AND TO 760 MILLION UNITS OF ACCOUNT IN
1980.

- (II) BY 1977 THE UK GROSS CONTRIBUTION TO EC BUDGET
(19.24 PERCENT OF THE TOTAL) WILL GO WELL BEYOND THE
UK SHARE OF COMMUNITY GDP (ABOUT 16 PERCENT). THE
24-1/2 PERCENT UK SHARE OF GROSS CONTRIBUTIONS TO
EC BUDGET IN 1980 COMPARES WITH A FORECAST UK
SHARE OF COMMUNITY GDP IN THAT YEAR OF 14 PERCENT.
- (III) THE UK'S GDP PER HEAD IS ALREADY BELOW THE COMMUNITY
AVERAGE AND THE FORECASTS INDICATE A CONSIDERABLE
FURTHER DIVERGENCE.

6. THE UK HAS EXPLAINED TO OTHER EC MEMBERS THAT IT

ESTIMATES THE UNDERLYING RATE OF GROWTH OF UK PRODUCTIVE
POTENTIAL AT OVER 3 PERCENT FOR THE PERIOD 1974-1980.
BETWEEN 1963 AND 1973 ACTUAL UK GROWTH AVERAGED 2.5 PER-
CENT PER ANNUM. ACCOUNT HAS BEEN TAKEN OF THE PROSPECTS
FOR NORTH SEA OIL, WHICH IS NOT CONSIDERED LIKELY TO HAVE
A SUBSTANTIAL DIRECT EFFECT ON THE RATE OF GROWTH. THE
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IMPLICATION OF NORTH SEA OIL FOR THE BALANCE OF PAYMENTS,
AND HENCE FOR RELATIVE EXCHANGE RATES, IS TAKEN AS ROUGHLY
OFFSETTING THE DISPROPORTIONATELY HIGH CURRENT DEFICIT.
THE UK ESTIMATES THAT THE WEIGHTED ANNUAL AVERAGE GROWTH
RATE OVER THE PERIOD 1973-1980 FOR OTHER MEMBERS OF THE
COMMUNITY WILL BE 4.9 PERCENT, BASED ON EC MEMBER STATE
SUBMISSIONS TO EC MEDIUM TERM ECONOMIC POLICY COMMITTEE IN
SECOND HALF 1973.

7. SOURCE STRESSED THAT PRESS REPORTS ARE INCORRECT IF
THEY INDICATE THAT THE UK PRESENTATION IMPLIED FUTURE
STERLING DEVALUATIONS. THE UK'S TRANSACTIONS WITH THE
COMMUNITY BUDGET ARE AT PRESENT CARRIED OUT ON THE BASIS
OF A CONVERSION RATE OF ONE POUND EQUALS 2.4 EC UNITS OF
ACCOUNT. FOR THE PURPOSE OF THE UK'S FORECASTS PRESENTED
TO THE EC, IT WAS ASSUMED THAT THE RATE OF ONE POUND
EQUALS TWO UNITS OF ACCOUNT USED IN THE FORECASTS OF THE
1980 POSITION WILL OPERATE FROM THE BEGINNING OF 1976, AS
AN APPROXIMATE DATE AT WHICH ANY
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